

FIRE and POLICE PENSION ASSOCIATION  
Board of Directors

March 19, 2015

- 7:30 a.m.     **Call to order**  
                  *Todd Bower*
- Approval of February 26 Board minutes  
                  Approval of February 26 Board executive session minutes
- 7:35 a.m.     **Investment Report**
- Review of February 2015 performance  
                  *Scott Simon*  
                  Review of February Managers  
                  *Scott Simon*  
                  Sudan divestment semi-annual review  
                  *Scott Simon*
- 8:05 a.m.     **Payden & Rygel (Cash Management)**  
                  *Austin Cooley, Jessica Hsu*  
                  *James P. Sarni, Managing Principal*  
                  *Larry Manis, Portfolio Manager*
- 9:05 a.m.     **break**
- 9:15 a.m.     **Wood Creek (Real Assets)**  
                  *Dale Martin*  
                  *Brett Hellerman, CEO, CIO*  
                  *Alex Thomson, Managing Director - Client Services*
- 10:15 a.m.    break
- 10:25 a.m.    **Staff Report**
- CEO Report  
                  *Dan Slack*  
                  Legal Report  
                  *Kevin Lindahl*  
                  Investment Department incentive compensation program report  
                  *Dan Slack, Scott Simon*
- 11:25 a.m.    break

11:35 a.m.    **Chair's Report**  
*Todd Bower*

Executive Director & Board discussion  
*Todd Bower, Dan Slack*

12:35 p.m.    **Adjourn**

**lunch**

**Diligent Boardbooks 101**  
*Dan Slack; Jacquette Tara*

**Fire and Police Pension Association  
Minutes – Board of Directors Meeting  
February 26, 2015**

**FPPA Office**  
**5290 DTC Parkway, Suite 100**  
**Greenwood Village, CO**

**Board Members Present:** Chair Todd Bower, Vice Chair Jack Blumenthal, Dave Bomberger, Pam Feely, Nick Nuanes, Tyson Worrell, and Manuel Esquibel (via teleconference)

**Board member not present:** Cliff Stanton

**Staff Members Present:** Dan Slack, Kevin Lindahl, Kim Collins, Gina McGrail, Scott Simon, Elaine Gorton, Jacqueline Tara, Austin Cooley, Ben Bronson, Claud Cloete, Dale Martin, and Jessica Hsu

**Others Present:** John Linder and Ryan Lobdell, Pension Consulting Alliance; Mike Fleiner, Bidart & Ross; David Thompson and Suzanne Rogers, Fidelity

*Notice of this meeting and a copy of the agenda were posted outside the meeting room and on the FPPA website at least twenty-four hours prior to the meeting.*

At 7:49 a.m., Vice Chair Blumenthal called the meeting to order.

Vice Chair Blumenthal called for a motion to approve the minutes of the January 29, 2015, board meeting. Mr. Bomberger moved to approve the minutes. Ms. Feely seconded the motion. The motion passed with Mr. Nuanes abstaining.

Vice Chair Blumenthal called for a motion to approve the minutes from the January 29, 2015, executive session. Mr. Bomberger moved to approve the minutes. Ms. Feely seconded the motion. The motion passed with Mr. Nuanes abstaining.

**Investment Report**

**Monthly Investment Report**

Mr. Simon presented the economic recap and financial performance for January 2015. Fresh uncertainties in Europe, slowing economic growth, anticipation of a looming Federal Reserve rate hike, and a stronger dollar all contributed to a volatile month for the markets. January's U.S. economic data were generally positive. Labor market signals remained strong and consumer sentiment reached its highest level in 11 years, thanks in part to falling gasoline prices which remain below \$50 a barrel.

The Total Fund performance (net of fees) for January was **-.26% (+8.68% for the 1-year)** and Net Investible Assets for the Total Fund was **\$4.155 billion** as of January 31, 2015.

FPPA's total fund implementation benchmark was +7.76% for the 1-year. Net Investible Assets for the Total Fund was \$4.155 billion as of 1/31/2015.

The Investment staff will be reviewing two emerging markets equity exposure managers this year; Baillie Gifford for their risk taking, primarily with heavy tech exposure, and their lack of diversification and the underperformance in AQR EM. Staff will communicate any findings or concerns to the Board.

At 8:02 a.m., Mr. Worrell joined the meeting.

Mr. Simon referenced an article included in the board packet regarding London Stock Exchange Group's (LSEG) consideration of offloading the entire Russell Investment management business, which they acquired in 2014. FPPA uses a division of Russell Investments for the overlay program. Staff will continue to monitor the stability of the division of Russell with concern of possible loss of key personnel currently managing FPPA's strategy.

#### Investment Committee Update

Mr. Bomberger reviewed the topics of the Investment Committee meetings held since the last Board meeting.

- A \$50 million investment in HBK Capital, a \$7.5 billion multi-strategy hedge fund, to be held within FPPA's absolute return portfolio.
- Reviewed and verified the construction and accuracy of the implementation benchmark.
- Rebalancing decisions included a \$14 million redemption from BlueTrend (managed futures) and a \$36 million redemption from AQR Delta, primarily to raise capital for the HBK investment.

At 8:07 a.m., Mr. Bronson joined the meeting.

#### Annual Commitment Pacing Recommendation

Mr. Simon provided an educational background on FPPA's analysis of the annual commitment pacing recommendation. The Commitment Pacing Plan is designed to effectuate a desired target allocation to the Illiquid Alternative Class over an extended period of time. Implementation of the annual commitment pace remains subject to Investment Staff's moderation or acceleration within approved ranges based on the prudent and periodic evaluation of the opportunity set of existing and prospective managers, available investment strategies, macro and micro economic considerations and internal implementation considerations.

Mr. Bomberger moved that the Board approve staff's recommendation to make commitments of between \$250 and \$300 million to investments in the illiquid alternatives class in 2015. Ms. Feely seconded the motion. The motion passed.

At 8:15 a.m., Mr. Cloete left the meeting.

#### 4Q 2014 Performance Summary Report

Mr. Linder presented the 4Q Portfolio and Capital market review. As of December 31, 2014 the Total Fund had an aggregate value of \$4.2 billion. During the latest quarter, inclusive of cash flows and investment results, the portfolio increased by \$45.4 million and over the latest one year the portfolio increased by \$181.2 million.

Mr. Linder reported that the fund has performed in line with the policy benchmark (net of fees) and outperformed the median public fund (gross of fees). The direction of the fund has moved towards a less volatile portfolio while maintaining a similar level of return to our public market peers and the policy benchmark remains a difficult benchmark to outperform.

Vice Chair Blumenthal asked what techniques are available to reduce the spread between the implementation benchmark and the policy benchmark. Mr. Simon explained that the difference between the benchmarks lies in the alternatives area. The policy benchmark is based on long-term (5 years) and measuring how the portfolio is allocating assets to the bigger classes. Implementation policy is looking at how on a year to year basis, the portfolio is accurately achieving.

Mr. Simon agreed to produce a performance attribution on a 3 - 5 year basis to more accurately reflect the variance in the benchmarks.

At 9:18 a.m., Vice Chair called for a break. Mistery Cooley, Bronson, Cloete, Martin, and Ms. Hsu left the meeting. At 9:30 a.m., the meeting reconvened. Mr. Thompson, Ms. Rogers, and Mr. Fleiner joined the meeting.

#### Risk Metrics

Mr. Linder reviewed the Investment Market Risk Metrics. Inflation continues to drop. After multi-year highs, the equity markets pulled back in January 2014. Breakeven inflation continued to drop, declining below 1.6% mid-month. The yield on the 10-year Treasury declined 30 basis points in January to 1.7%, near the lows of 2013. and U.S. equity valuations, both public and private, remain at top decile levels. PCA's *Market Sentiment Indicator* chart "PMSI" remained neutral in January.

### **Self-Directed Plans Annual Review**

#### Fidelity market overview and recordkeeping review

Ms. Rogers, Fidelity, reviewed total members and total assets within the Hybrid Plan, Drop Plan, Statewide Money Purchase Plan, SRA Plan, and the Deferred Compensation Plan, as well as a summary of combined plan statistics for 4Q 2014.

Ms. Rogers continued with executive summary and key accomplishments of the 2014 FPPA Self Directed Plans.

Mr. Nuanes suggested FPPA and Fidelity look into designing automatic counseling to accommodate members involved in the DROP plan. The suggestion will be discussed at the next strategic business planning meeting.

### Investment Trends

Mr. Thompson reviewed the investment trends for the Hybrid Plan, Drop Plan, Statewide Money Purchase Plan, SRA Plan, and the Deferred Compensation Plan and discussed the difference in returns for Fidelity Portfolio Advisory Service at Work (PAS-w) managed accounts versus those in non-managed accounts.

Mr. Thompson updated the committee on the U.S. Securities and Exchange Commission (SEC) approved regulatory changes for money market mutual funds. If a non-government fund is below 30% liquidity, a 2% fee would apply to members if they were to withdraw funds. Being a government fund, FPPA's current money market fund option will be exempt from this structural change, with exception to the self-directed brokerage which is a cash reserves account. Fidelity has taken the first step with a proxy vote instructing Fidelity to convert the mandate on cash reserves to a government mandate, which would then classify the self-directed brokerage account as exempt from the SEC structural changes. Fidelity will continue communication updates with FPPA through this process.

Mr. Thompson continued with a discussion of an excessive fee case before the Supreme Court. Brought on by shareholders, the lawsuits charge the plan sponsors with a fiduciary breach of improper diligence with regard to the fees associated to the plan. The Supreme Court may soon be ruling in favor of the plaintiffs to extend the statute of limitations beyond the current six year limitation.

Fidelity was also involved in a case against claim of lowest share class. Fidelity's float policy refers to interest accrued between the time Fidelity takes deposited funds and invests it a day or two later at closing price. Fidelity has updated their policy so the interest now goes back to the specific plans and not to the funds. FPPA's contract with Fidelity correctly addresses that float funds go to the plan and not to the fund.

### Fund Performance review

Mr. Fleiner delivered an investment fund performance review for 4Q 2014. Domestic stocks held strong for 2014 while the small cap areas struggled in comparison to the larger midcap areas of the market. It was another disappointing year for international markets across the board, although emerging markets weren't down as much as some of the more developed areas of the national

economies, it is the more developed areas that have really struggled economically; Germany's growth has dropped off, and Japan entered a mild recessionary environment. Long term numbers for international are considerably trailing domestic equities. Across the board bonds did very well in 2014 with longer durations doing better as rates fell throughout the year.

The first month of 2015 has been down slightly, while the month of February has seen good equity returns across the market place.

All thirty of FPPA's funds are meeting the criteria as set forth in the investment policy statement.

Bidart & Ross will be reevaluating the glidepath to establish whether or not we should be using a product with a glidepath that is more similar to the industry average. A survey will be designed by Bidart & Ross to measure the average age ranges in the plan, which funds are being used, and determine individual perspectives on risks and returns and how they view retirement.

#### Overview of Self-Directed Plans Fee Policy

Mr. Fleiner informed the Board that staying within best practices are in the market, a fund lineup changes project (to reflect the lower share classes of the same funds) will be underway with implementation by July 2015; Fidelity, FPPA and Bidart and Ross will work together to make this change.

Mr. Slack updated the Board on the revised Self-Directed Plans Fee Policy. Having received resistance to the past revenue sharing, flat fee approach introduced a few years ago, FPPA changed back to a traditional approach where revenue sharing is utilized to help pay plan expenses. Current best practice is trending to move to the lowest shared class eligible. Under the new fee policy current revenue credits will be calculated on a quarterly basis as opposed to annually. The record-keeping fees will be based off the quarter-end balance plus 12 basis points for Fidelity. This change will align the quarterly processing of revenue credits as part of the fee leveling project.

At 10:51 a.m., Vice Chair Blumenthal called for a break. Mr. Thompson, Ms. Rogers, and Mr. Fleiner left the meeting. At 10:57 a.m., the meeting reconvened.

### **Staff Report**

#### Executive Director Report

Mr. Slack updated the Board on matters included under the staff report in the Board packet. Mr. Slack noted a thank you letter to FPPA staff from a retired firefighter of the Greely Fire department.

With regard to increased efficiency and productivity, a new phone system has been implemented. There has been some push back by members, primarily the lack of a "live" person answering the phone. Although the receptionist can still be accessed

by pushing "0", it will take some time to get used to the new system and staff is confident the complaints will soften out.

FPPA has received two media inquiries. Mr. Slack discussed FPPA's investment program with a reporter at the Wall Street Journal who is doing a story on the use of smaller alternative asset managers. A reporter at the Denver Post also contacted FPPA requesting information regarding the 2014 and 2015 budgets, with primary focus on fees paid to investment managers. Mr. Slack has offered to sit down with him and discuss the material. Mr. Slack has not yet heard back from the reporter.

Mr. Slack highlighted the articles in the packet regarding the value activist investors can add to the market and the bankruptcy court opinion in the Stockton, California bankruptcy case. The bankruptcy judge in that case laid out an analytical framework for considering pension benefits in a municipal bankruptcy case. Mr. Slack voiced concern if there could be implications for FPPA if one of our employers declared bankruptcy since municipalities are FPPA's members.

The February educational session will be postponed to the March Board meeting.

#### Legal Report and Legislative Update

Mr. Lindahl referenced the legal report included in the Board packet and noted that much of the legal staff's work has been focused on investment deals.

FPPA's request for a one-hour Status Conference was granted by the new judge in the Dolan case. The Status Conference will be held on February 19, 2015. The trial date for FPPA's litigation has been set for September and the new judge on the Dolan case was a Deputy Attorney General here in Colorado.

Four primary bills proposed by FPPA have passed both Houses and will now go before the Governor for signature. FPPA's Volunteer Bill, which has a fiscal note attached, is in appropriations and may be considered in late March after the budget bill has passed.

#### Supplemental actuarial study

Ms. McGrail shared that staff and Gabriel Roeder Smith & Company (GRS) have agreed to a supplemental actuarial study on the Statewide Defined Benefit Plan (SWDB) as a part of the 2015 valuation process. This study will pertain to members returning work following a temporary occupational disability, and members satisfying the requirements for a normal retirement while receiving temporary occupational disability benefits.

#### 2014 Budget variance report

Ms. Collins reviewed the annual Operating Budget Variance Report for 2014.

Vice Chair Blumenthal requested further breakdown on the Investment legal and

management fees. Staff will have a report prepared for March's Board meeting.

### **Chairman's Report**

Mr. Bomberger moved that the Board adopt the Resolution recognizing Susan Eaton's service to FPPA. Mr. Nuanes seconded the motion. The motion passed.

Mr. Nuanes provided an evaluation of the NAPO conference. Primary discussion at the conference covered pension programs throughout the country.

At 11:32 a.m., Chair Bower joined the meeting.

At 11:32 p.m., Mr. Bomberger moved to go into executive session pursuant to Section 24-6-402(4)(f) of the Colorado Revised Statutes to discuss personnel matters. Mr. Worrell seconded the motion. The motion passed. Chair Bower designated Ms. Gorton to remain in the Board meeting. In response to the executive session, Mr. Slack, Mr. Lindahl, Ms. Collins, Ms. McGrail, Mr. Simon, Ms. Tara, Mr. Linder, and Mr. Lobdell left the meeting.

At 12:35 p.m., Mr. Bomberger moved that the Board return to its regular meeting. Mr. Worrell seconded the motion. The motion passed. Chair Bower declared that no action was taken during the executive session and no motions were made. Mr. Slack, Mr. Lindahl, Ms. Collins, Ms. McGrail, Mr. Simon, and Ms. Tara rejoined the meeting.

At 12:40 p.m., Ms. Feely moved to adjourn the meeting. Mr. Bomberger seconded the motion. The meeting adjourned.